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Ministry of Justice Anti-Corruption Hotline 0800-286-586
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- FSC amends Article 2 of "Regulations of Investment Ceilings and Guidelines Governing Financial Holding Company's Venture Capital Subsidiaries Investing in Non-financial Enterprises Not Listed on Taiwan Stock Exchange or Taipei Exchange"
- FSC amends "Directions for the Conduct of Wealth Management Business by Securities Firms"
- FSC adopts interpretive rule for Article 145-1, Paragraph 2 of the "Insurance Act"

Policy and Law

FSC amends Article 2 of "Regulations of Investment Ceilings and Guidelines Governing Financial Holding Company's Venture Capital Subsidiaries Investing in Non-financial Enterprises Not Listed on Taiwan Stock Exchange or Taipei Exchange"

In coordination with the Executive Yuan's adoption of the "Program for Promoting Six Core Strategic Industries" on 21 May 2021, the FSC on 27 October 2022 amended Article 2 of the "Regulations of Investment Ceilings and Guidelines Governing Financial Holding Company's Venture Capital Subsidiaries Investing in Non-financial Enterprises Not Listed on Taiwan Stock Exchange or Taipei Exchange" by newly providing that when the venture capital subsidiaries of financial holding companies invest in firms in the six core strategic industries, investment restrictions set out in these Regulations may be lifted. The amendments provide that when the combined amount invested in any single company not listed on Taiwan Stock Exchange (TWSE) or Taipei Exchange (TPEX) in the six core strategic industries does not exceed NT\$150 million, and when among a financial holding company and its subsidiaries it is only venture capital subsidiaries that participate in such investments, the restrictions on total shareholdings set out in Article 37, Paragraph 5 of the "Financial Holding Company Act" need not apply.

FSC amends "Directions for the Conduct of Wealth Management Business by Securities Firms"

To improve the services of trust businesses that are concurrently conducted by securities firms, and to make it easier for securities firms to take part in the development of the trust business, the FSC on 7 November 2022 amended the "Directions for the Conduct of Wealth Management Business by Securities Firms." Prior to the amendment, a securities firm that concurrently conducts either money trust or securities trust business was only allowed to assist customers with investing in financial planning-type trust products. Following the amendment, however, a securities firm may, in line with customer needs, provide all kinds of trust products via money trusts and securities trusts. Also, on that same day, the FSC amended the FAQs for the Directions for Wealth Management, simplified related application procedures, and required that when a securities firm conducts trust business it must adopt an accountability mechanism. The FSC, when necessary, may conduct an interview with the firm's supervisor in charge of the trust and wealth management business department, and hold the persons involved accountable when a securities firm commits an irregularity to strengthen corporate governance and implement internal control systems.

FSC adopts interpretive rule for Article 145-1, Paragraph 2 of the "Insurance Act"

After an insurance enterprise, acting in accordance with International Financial Reporting Standard (IFRS) No. 9, takes "financial assets measured at fair value through other comprehensive income" and reclassifies them as "financial assets measured at amortized cost," when the enterprise distribute distributable surplus, in order to maintain a sound and stable financial structure, changes in the fair value of the reclassified assets must be included in the net deduction of other shareholders equity as referred to in an FSC order dated 11 June 2021 (Ref: Jin-Guan-Bao-Cai No. 11004920441), and set aside that amount occurred in the current period to special capital reserves.

After that, when any change in the fair value of reclassified financial assets (including gains/losses on disposal) plus the net deduction to other shareholders equity is to be reversed, the enterprise may, with respect to the reversed portion, make a reversal of the special capital reserve and distribute the surplus. After a life insurer makes a reversal and is preparing to conduct a distribution of surplus, it shall still be required to handle the matter in accordance with an FSC letter dated 8 February 2013 (Ref. Jin-Guan-Bao-Cai No. 10202501992), and the aforementioned changes in the fair value of its reclassified financial assets shall be disclosed in a note to the company's annual financial report.

FSC amends "Regulations Governing the Preparation of Financial Reports by Securities Issuers," "Regulations Governing the Preparation of Financial Reports by Securities Firms," and "Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants"

In response to the additions and amendments to the International Financial Reporting Standards (hereinafter referred to as IFRSs), amendments to the Company Act in recent years, and the current domestic implementation of IFRSs, the FSC amended the "Regulations Governing the Preparation of Financial Reports by Securities Issuers," the "Regulations Governing the Preparation of Financial Reports by Securities Firms," and the "Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants" on 24 November 2022. The amendments consist of specifying the definition of "material," "accounting estimates," and "accounting policies," strengthening the supervision of accounting changes, revising the terms and reference number of the auditing standards cited in compliance with the General Outline of the Auditing Standards, revising text in consideration of the practical operation of CPA evaluation and review, amending relevant regulations on earnings distribution in compliance with the Company Act that allows a company to distribute earnings based on the approval of a board meeting, and simplifying how public futures commission merchants practice information disclosure.

International Activities

FSC Signs MoU with the European Securities and Markets Authority Related to Recognized Central Counterparties and supervises TAIFEX applying for QCCP recognition of foreign competent authorities

In order to encourage foreign financial institutions to participate in Taiwan's central clearing business, the FSC has been making concerted efforts to promote Taiwan Futures Exchange (TAIFEX) to apply for QCCP recognition under the regulations of foreign countries. The FSC has entered into a Memorandum of Understanding (MoU) with the European Securities and Markets Authority (ESMA) to establish cross-national supervision cooperation arrangements regarding TAIFEX's application for QCCP recognition of ESMA. Additionally, the U.S. Commodity Futures Trading Commission (CFTC) has issued a No-Action Letter to the TAIFEX, and the TAIFEX can be recognized as the QCCP by Australian financial institutions according to the regulations of Australia.

The signing of the MoU follows the European Commission's equivalence decision on September 28th, 2022, recognizing that Taiwan's legal and supervisory framework for CCPs has been deemed equivalent to European Markets Infrastructure Regulation (EMIR), and the execution of the MoU satisfies a condition of the ESMA recognition process and serves to facilitate the recognition of the Taiwan Futures Exchange. The recognition is critical and beneficial for European Union (EU) financial institutions to manage the counterparty risk efficiently with lower capital requirements that increase their willingness and market confidence to participate in the Taiwan financial market.

Through the MoU, the FSC and the ESMA express a desire for enhanced cooperation with the CCPs operating in the EU. The MoU

reflects the FSC's and ESMA's commitment to strengthening their mutual cooperative relationship and building upon a supervisory collaboration between Taiwan and EU competent authorities. This MoU is a major milestone allowing for fruitful cooperation related to the CCPs between the FSC and the ESMA and lays a foundation of mutual trust between Taiwan and Europe's competent authorities.

On 19 September 2022, the CFTC issued a No-Action Letter to the TAIFEX that allows U.S. financial institutions to enjoy capital charge concessions from September 2022 to September 2023. Moreover, according to the regulations of the Australian Prudential Regulation Authority (APRA), the TAIFEX can be recognized as a QCCP by Australian financial institutions now that the TAIFEX has been recognized as a qualified CCP by the FSC in 2022. The above recognition will definitely encourage foreign financial institutions to participate in the Taiwan financial market, and effectively raises Taiwan's market visibility.

Industry Updates

FSC Insurance Bureau and ROC Non-Life Insurance Association establish COVID insurance anti-fraud task force

The ROC Non-Life Insurance Association has reported that online merchants have been known to sell COVID-19 rapid test kits that have already yielded a positive test result, and news media have also issued reports of individuals who have asked others who have tested positive to give them the test kits that yielded the positive results. Such behavior gives rise to moral hazard. Misuse of test kits that have yielded a positive result can result in inefficient use of insurance resources, therefore, in order to avoid crowding out the capacity of non-life insurance company, the FSC Insurance Bureau has joined with the ROC Non-Life Insurance Association to establish a COVID insurance anti-fraud task force, and the Non-Life Insurance Association has set up a hotline (0800-221-783) and an e-mail address (19report@nli.org.tw) that people can use to report suspected abuses. When suspicious cases are reported, the FSC and the Non-Life Insurance Association will refer them to law enforcement authorities for investigation so that the faking of positive COVID test results can be stopped.

When a person uses fake positive COVID test results to support the filing of an insurance claim, or provides one's own test specimen for someone else to use, such behavior constitutes fraud under the Criminal Code. The FSC advises members of the public not to engage in illegal activity.

Insurers are required to reclassify assets in accordance with IFRS 9 and ARDF guidelines

Central banks around the world have hiked interest rates in 2022 to deal with inflationary pressures. The US has raised interest rates by a total of 3 percentage points from March through September, and another rate hike at the end of the year remains a possibility. Multiple international bodies have warned that sharp rate hikes in the near future could affect financial stability. In addition, Taiwan has not yet adopted IFRS 17: Insurance Contracts. Assets have reflected a fall in the prices of insurers' bond holdings, while liabilities have not yet been evaluated at fair value, which cannot completely reflect the impact of interest rate hikes regarding assets and liabilities. Accordingly, some insurers are planning to change the business model they use for managing their financial assets.

IFRS 9 sets out guidelines regarding reclassification, and the Accounting Research and Development Foundation (ARDF) also provides guidelines. Any judgment on whether a particular company can reclassify should be made by that company's management and its auditing CPA based on a consideration of related evidence and how the company manage its financial assets. Management needs to be able to clearly explain the reasonableness of business model changes, and to retain supporting documentation, and related procedures and disclosures must be handled in accordance with the "Insurance Act" and the "Securities and Exchange Act." Also,

where an insurer carries out reclassification in order to maintain the capital soundness of insurers, the FSC will ask the insurer to set aside a provision to special capital reserves in order to prevent the reclassification from leading to increased distributions of surplus.

In the face of rapidly changing international economic and financial conditions, the FSC's most important tasks are to maintain financial stability and safeguard the interests of insurance policyholders. The FSC will continue paying close attention to the financial and operating condition of insurers, and will ask insurers to maintain good solvency and improve their corporate governance, risk management, and internal controls in order to reasonably ensure their sustainability and the safety and soundness of their business operations.

Insurers to take capital charges by end-2024 against terrorist attacks, communicable diseases, credit guarantees, and other risks

In order to adopt the Insurance Capital Standard (ICS) in an orderly manner, the FSC responded recently to a recommendation by the ROC Non-life Insurance Association to postpone implementation of the plan for insurers to take capital charges against terrorist attacks, communicable diseases, credit guarantees, and other catastrophic risks. In view of the fact that insurers are currently devoting a lot of resources to dealing with steadily increasing claims by holders of COVID-19 insurance policies, and considering also the fact that a buffer period of three years still remains before it comes time to adopt the ICS, in order to ensure that insurers make a concerted effort to handle matters affecting the rights and interests of insurance policyholders, and to further ensure smooth adoption of the ICS, the FSC is leaning toward having insurers take capital charges against the aforementioned catastrophic risks by the end of 2024.

2022 Conference on ERM in the Insurance Industry held on 4 November

The 2022 Conference on ERM in the Insurance Industry was hosted by the Taiwan Insurance Guaranty Fund on 4 November 2022 at Hotel Caesar Metro Taipei. This conference series was launched by the FSC in 2011, and this year's event marks the 11th year of the event, which has become an important platform for Taiwan's insurers to engage in experience sharing with commissioners of insurance, experts, and other insurers around the world to discuss the latest supervisory systems and matters of shared concern.

With an eye to the policy of achieving net zero carbon emissions by 2050, this year's conference follows up on the 2021 theme of "How Climate Change Shapes Insurers – Risks, Resilience, and Opportunities" by addressing the theme of "Climate Change and Green Finance : Actions and Responses." The conference, which last year sought to understand climate change risks, has this year progressed to looking into the question of how to deal with it, discussing actual experience with the promotion of green finance, providing information on international practices for the reference of domestic insurers, increasing the degree of participation of Taiwanese insurers, and incorporating related experience into risk management. The purpose of these actions is to strengthen financial resilience, promote responsible investing, and pursue net zero carbon reduction. In order to help insurers better understand international supervisory trends and to pursue the policy goal of strengthening risk management while implementing anti-COVID policies, the officials from insurance supervisory authorities (both international and national bodies) are invited to speak via either videoconference or pre-recorded video about the development of supervisory systems overseas. Besides, experts and insurance professionals from Taiwan are invited to share the results of research. The FSC hopes to take advantage of the discussions and experience sharing that take place at this conference to encourage insurers to take timely action to address climate change and green finance issues, and to establish appropriate climate change risk management mechanisms.

Adjusted reserve valuation rates for new life insurance policies denominated in foreign currencies to take effect on 1 Dec. 2022

To ensure that Taiwanese life insurers are operated in a sound and stable manner, to safeguard the interests of policyholders, and to make new contract policy reserves properly reflect market interest rates, the FSC, after meeting with insurers, completed discussions regarding reserve valuation rates for new life insurance policies denominated in foreign currencies. Compared with current reserve valuation rates for new life insurance policies, the new reserve valuation rates for new policies denominated in NT Dollars, US Dollars, and Australian Dollars will be raised by 25 basis points, 50 basis points, and 100 basis points, respectively, while the rates for policies denominated in euros and RMB will remain unchanged.

The setting aside of reserves constitutes a cost in the running of an insurance enterprise. An insurer must set aside policy reserves on the basis of the reserve valuation rate for new life insurance policies, and when pricing insurance policies it will take that cost into consideration. This most recent hike of reserve valuation rates for new policies denominated in certain currencies could make it possible to reduce premiums for certain types of new policies.

Considering the time it takes for an insurer to adjust the reserve valuation rate for an insurance product, this latest rate adjustment will take effect on 1 December 2022, and the FSC reminds insurers that they must consider market interest rates, select appropriate assets in which to invest, and properly conduct asset-liability management. At the same time they must also promote protection-type insurance products in order to raise the level of insurance protection enjoyed by people in Taiwan while maintaining the sound and stable operation of insurers.

FSC granted approval for Cigna Taiwan Life Assurance to assume the business as well as specified assets and liabilities of Chubb Life Taiwan and its offshore insurance unit (OIU)

On 2 June 2022, the FSC approved a plan for Chubb International Investments Ltd., a member of the Chubb Group, to acquire a 100% equity stake in Cigna Taiwan Life Assurance Co., Ltd. Currently, Cigna Taiwan Life, Chubb Life Taiwan, and Chubb's Taiwan offshore insurance unit are all members (either subsidiaries or branches) of the Chubb Group.

The Chubb Group, in order to exert the benefits of group synergy, has consolidated its Taiwan subsidiaries and branches, and in accordance with the provisions of "The Financial Institutions Merger Act" has applied with the FSC to approve a plan for Cigna Taiwan Life Assurance Co., Ltd. to assume the business plus specified assets and liabilities of Chubb Life Taiwan and its offshore insurance unit (OIU). The FSC approved the application on 9 November 2022.

FSC grants approval for Hua Nan Securities to assume the business and assets of Feng Long Securities

Hua Nan Securities Co., in order to expand its securities brokerage business, applied to the FSC to assume the business and assets of Feng Long Securities with the approval of the shareholders of Hua Nan Securities and Feng Long Securities. The FSC approved the application on 14 November 2022. To expand business scale and enhance competitiveness, the FSC encourages securities firms to adopt mergers and acquisitions strategies to strengthen their business operations.

SME lending by domestic banks as of end-October 2022

Total outstanding loans by domestic banks to small and medium enterprises (SMEs) as of the end of October 2022 stood at approximately NT\$9,178.5 billion, up by NT\$43.69 billion from the end of the previous month. As of end-October 2022, the balance of outstanding loans to SMEs accounted for 64.72% of total outstanding corporate loans and 68.68% of total outstanding loans to private companies, down by 0.42 percentage points and 0.25 percentage points, respectively, from the end of the previous month. Also, the average NPL ratio of loans extended by domestic banks to SMEs was 0.27%, up by 0.01 percentage point from the end of the previous month.

The FSC will continue encouraging banks, while taking necessary risk

control measures, to lend needed working capital to SMEs in order to build a favorable financing environment for SMEs.

NPL Ratio for Domestic Banks as of the End of October 2022

The total outstanding loans extended by the current 39 domestic banks increased by NT\$274 billion (US\$8.5 billion) as compared to the figure of previous month and amounted to NT\$36.65 trillion (US\$1,138 billion) at the end of October 2022. Meanwhile, the NPLs of these banks totaled at NT\$57.09 billion (US\$1.77 billion) which increased by NT\$524 million (US\$16 million) from NT\$56.57 billion (US\$1.76 billion) as of the end of the previous month. The average NPL ratio of the 39 banks remained at 0.16% compared to previous month, but was down by 0.03 percentage points compared to the same month last year.

The coverage ratios of allowances for NPLs increased by 0.01 percentage points and therefore rose to a figure of 854.28% from 854.27% of the previous month. The asset quality of domestic banks continuously remained manageable according to the above figures as of the end of October 2022. The FSC will request banks to undertake measures to improve asset quality and financial structure on an ongoing basis.

NPL situation of credit cooperatives at the end of October 2022

Total NPLs at Taiwan's 23 credit cooperatives stood at approximately NT\$0.746 billion as of the end of October 2022, generating an NPL ratio of 0.13%, down by 0.01 percentage points from 0.14% at the end of September 2022. The NPL coverage ratio was 1,634.93%, up by 86.49 percentage points from 1,548.44% at the end of September 2022.

Net foreign and mainland China investment in listed shares

As of the end of October 2022, foreign investors in the year to date had bought around NT\$14.6489 trillion and sold around NT\$15.8407 trillion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-sell of around NT\$1.1918 trillion. In addition, foreign investors in the year to date had bought around NT\$2.5083 trillion and sold around NT\$2.5646 trillion worth of shares listed on the Taipei Exchange, amounting to a net-sell of around NT\$56.3 billion. Meanwhile, mainland China investors had bought around NT\$2 billion and sold around NT\$2.7 billion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-sell of about NT\$0.7 billion; and mainland China investors had bought NT\$0.1 billion and sold around NT\$0.4 billion worth of shares listed on the Taipei Exchange, amounting to a net-sell of around NT\$0.3 billion. As for inward remittances by foreign and mainland China investors, the figure for cumulative net inward remittances by offshore foreign institutional investors, offshore overseas Chinese, and foreign nationals at the end of October 2022 stood at approximately US\$207.6 billion, up by around US\$0.5 billion from US\$207.1 billion at the end of September 2022. The figure for cumulative net inward remittances by mainland China investors was US\$28.4 million, down by about US\$7.4 million from US\$35.8 million at the end of September 2022.

Sales of spillover-effect insurance products and provision of in-kind benefits by life insurers in 2022 through Q3

As of the third quarter of 2022, the FSC has approved or accepted registrations of 134 spillover-effect insurance products from 10 life insurance companies. In total, 894,728 new contracts for such products had been sold as of the third quarter of 2022, up by 88% from 476,657 compared to the same period of 2021. The first-year premium income was NT\$11,080.03 million, up by 56% from NT\$7,097 million compared to the same period of 2021.

The FSC has approved or accepted registrations of 36 in-kind payment insurance products from 6 life insurance companies. In total, 167,349 new contracts for such products had been sold as of the third quarter of 2022, up by 1,072% from 14,282 compared to the same period of 2021. As of the third quarter of 2022, the first-year premium income was NT\$2,465.32 million, up by 1,130% from NT\$200.48 million compared to the same period of 2021.

Profit/loss, net value and exchange gains/losses of the insurance industry in September 2022

The pre-tax profit of all insurance enterprises at the end of September 2022 was NT\$187.1 billion, down by NT\$191.6 billion, or -50.6% compared to last year; the pre-tax profit of life insurance enterprises was NT\$297.5 billion, down by NT\$62.2 billion, or -17.3% compared to last year, while the pre-tax loss of non-life insurance enterprises was NT\$-110.4 billion, down by NT\$129.4 billion or -681.1%.

The owners' equity of insurance enterprises at the end of September 2022 was NT\$905.3 billion, down by NT\$1,806.4 billion, or -66.6% compared to last year; the owners' equity of life insurance enterprises was NT\$828.5 billion, down by NT\$1,730.2 billion, or -67.6% compared to last year, while owners' equity of non-life insurance enterprises was NT\$76.8 billion, down by NT\$76.2 billion or -49.8%.

As of the end of September 2022, the NT Dollar had depreciated by 12.8% against the US Dollar since the end of 2021, and the cumulative balance of foreign exchange valuation reserve of life insurance enterprises was NT\$274.6 billion, up by NT\$230.9 billion. Meanwhile, the combined impact of exchange gains/losses, hedging gains/losses and the net effect of volatility on the foreign exchange valuation reserve of life insurance enterprises was NT\$94.4 billion. Over the same period, the overseas investments of life insurers resulted in net gains (including exchange gains/losses and hedging gains/losses, but not including the net effect of volatility on the foreign exchange valuation reserve) of NT\$986.5 billion.

Investor and Consumer Protection

2022 Financial Literacy Campaign for the Campus and Community

In the month of November 2022, the FSC held 82 activities at different locations, including the National Immigration Agency's Tainan City Service Center No.1, as part of the 2022 Financial Literacy Campaign for the Campus and Community, attracting 8,408 participants. The Financial Literacy Campaign is free of charge, and has struck a chord with many people since its inception in 2006. As of the end of 2021, a total of 7,351 events had been held and over 1.1 million people had attended. The target participants include students at all levels, communities, women's groups, indigenous people, immigrants, military service personnel, correctional institutions, social welfare groups, senior citizens' groups, police, fire fighters, coast guard personnel, and taxi drivers.

The Banking Bureau of the FSC will continue to promote the financial literacy campaign in 2022. Schools or community groups interested in the campaign are invited to register through the website of the Banking Bureau. For more information, please contact us at (02) 8968-9710.

Major Enforcement Actions

FSC imposes fine on Yuanta Commercial Bank

The FSC recently imposed a fine on Yuanta Commercial Bank Co., Ltd. after discovering that a former wealth manager at the bank had engaged in abnormal fund transactions with customers and taken part in other improper behavior. These deficiencies revealed that the bank, in overseeing the behavior of its wealth managers and checking on the conduct of service counter transactions, had failed to properly implement internal controls, and had not carried out risk-based audits of material contingencies. These failures constituted violations of Article 45-1, Paragraph 1 of the "Banking Act" as well as Articles 3 and 8, Paragraph 1, Subparagraph 2, Items 6 and 10, and Article 8, Paragraph 3 of the "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries," enacted in accordance with Article 45-1, Paragraph 1 of the "Banking Act." The FSC therefore imposed an administrative fine of NT\$6 million on the bank in accordance with Article 129, Subparagraph 7 of the same Act.